



Oklahoma Economic Report™

News and analysis of Oklahoma's economy

A publication of the Office of the State Treasurer • Treasurer Ken Miller, Ph.D.

Paying it forward . . . or not

Those who purchase life insurance do so believing they are providing some level of security for their family after death. However, the payments promised through those policies don't always make it into the hands of the intended recipients.

More than a billion dollars in due death benefits are being held by insurance companies simply because the beneficiaries aren't aware the policies exist. Some insurance companies aren't eager to change that fact, instead advocating for legislation to turn the outstanding benefits into company assets.

Under states' unclaimed property laws, all businesses holding funds belonging to customers with whom they've lost contact are required to transfer those funds to the state for safekeeping.

Just as with other industries, life insurance companies have a responsibility to remit unclaimed policies to the state, which holds the funds in trust indefinitely for the rightful owners. But within the past five years, states have learned that some insurers are not complying with the intent of unclaimed property's consumer protection laws.

States' efforts to rectify this have identified more than a billion dollars in unpaid beneficiary payments across the nation and helped unite thousands of individuals with funds their loved ones always meant for them to have.

In 2011, the life insurance industry came under scrutiny after examinations revealed some companies were using the Social Security Death Master File (DMF), a database containing more than 86 million records created from Social Security payments, to stop payments on annuities but were not using the same

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By the Numbers: Unclaimed Life Insurance

\$14 million. Amount of unclaimed life insurance due to Oklahomans remitted to the state following examinations.

\$23 million. Estimated amount of additional unclaimed life insurance due to Oklahoma beneficiaries.

13 years. Average length of time since death of policyholders for unclaimed policy benefits discovered during examinations of life insurance companies.

Source: Oklahoma Treasurer's Unclaimed Property Division



Treasurer's Commentary

By Ken Miller, Ph.D.

Endowing unclaimed property

Oklahoma lawmakers could have a permanent source of tens of millions of dollars each year that would not require any new taxes or fees. All it would require to guarantee such a generous long-term payoff is a little short-term discipline. Sure, this is a hefty ask in the political realm where time horizons center around election years, but our history shows it's possible.

Thanks to the foresight of statesmen like Drew Edmondson, Robert Butkin and others, Oklahoma is the only state with a constitutionally-protected tobacco settlement endowment. In 2000, voters wisely approved an amendment to the state constitution to permanently set aside and invest the majority of Oklahoma's annual payments from the tobacco industry, with only the fund's earnings used to fund annual public health and education efforts.

After 15 years and a beginning balance of only \$20 million, the Oklahoma Tobacco Settlement Endowment Trust Fund has grown to almost \$1 billion today.

The fund's board of investors recently certified more than \$52 million in annual earnings. Since inception, more than \$242 million in earnings have been invested in our people

while the corpus has been preserved for future Oklahomans.

The unclaimed property fund could be structured in the same manner. Business remittances of unclaimed property vary between \$18 million and \$70 million each year. With such a wide variance in annual remittances, the Legislature should not depend on the fund to fill ongoing budget needs to the extent that it does now.

“What is now a volatile source of revenue could be molded into a steady, recurring revenue stream.”

Even so, lawmakers have taken more than \$230 million from the unclaimed property fund in the past six years, including \$54.5 million for the current budget. With such fluctuations in receipts and historic amounts reunited with each new year, this growing dependence is unsustainable unless changes are made. Left as is, collections will soon be insufficient to return funds to the rightful owners and meet budget obligations.



That problem would be solved if annual remittances were allowed to grow into an endowment where only the earnings could be appropriated. Even with ever-increasing amounts successfully returned to the rightful owners, some of the money will forever go unclaimed. Although these unclaimed amounts will remain a state liability, unclaimed property laws were written so that these funds eventually benefit the public.

What is now a volatile source of revenue could be molded into a steady, recurring revenue stream. As with standard endowments, the money could be placed into higher-yield, long-term investments with earnings spun off for appropriations each year. Sufficient money would be set aside to pay claims, while the remainder would be put to work providing a permanent source of funds for public use.

Imagine if the Legislature took

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Commentary

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the long view and stopped current consumption of the unclaimed property fund. Placing \$40 million a year into an endowment, at an eight percent growth rate for 15 years,

would yield a corpus of \$1.173 billion – an amount capable of spinning off more than \$58 million annually. Waiting to tap the fund until year 20 would create an endowment of almost \$2 billion and generate as much as \$100 million in earnings per year.

As with the Oklahoma Tobacco Settlement Endowment Trust Fund, an Oklahoma Unclaimed Property Endowment Trust Fund could provide a substantial and ongoing revenue stream that would better serve the budget process and all Oklahomans for generations to come.

Unclaimed

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database to determine if death benefits were due.

That same year, the National Association of Insurance Commissioners coordinated regulatory investigations into the claim settlement

practices of life insurance companies and the possible failure to pay death benefits. Soon after, states began pursuing their own investigations. The result was a series of multi-state settlement agreements where

life insurance companies agreed to proactively use the DMF to determine whether death benefits may be due.

Oklahoma has not initiated any settlement agreements but has joined those brokered by other states. Those companies which fail to report and remit abandoned life insurance policies are subject to state examinations. Since

Oklahoma began reviewing insurers' records in 2011, more than \$14 million in unclaimed life insurance policy proceeds have been remitted and it is estimated an additional \$23 million is due to Oklahoma life insurance beneficiaries.

Last session, a bill was introduced in

Oklahoma to require insurers to regularly perform comparisons of all policies issued on or after January 1, 2015 against the DMF. The seemingly well-intended but misleading legislation sailed through the House of Representatives

without opposition, but stalled in the Senate once it was revealed the change would relieve insurers of the responsibility to employ similar due diligence for any policy issued before then. If enacted, such legislation would effectively exclude thousands of policies from evaluation and eventual reunification with rightful beneficiaries.

Not all insurers are resisting use of national databases to confirm death of policyholders. For example, in February of this year, as part of a market conduct examination, the Florida Insurance Commissioner found that USAA Life Insurance Company had begun conducting regular matches between the DMF and its database in the late 1990s. In 2007, the company began running matches on a weekly basis. The insurance commissioner praised USAA for its efforts, stating that "USAA's policies and procedures are representative of how life insurance companies should have been utilizing the DMF all along and they are to be commended for their vision on this issue."

In response to several states' determinations that insurers have an obligation to match policies against either the DMF or a comparable database, litigation has been brought, with varying outcomes. If insurance companies are successful in changing Oklahoma law to exempt them from matching policies against the DMF, the State Treasurer has stated he will file suit.

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“Most forgotten policies are small in value but collectively represent hundreds of millions of dollars.”



Unclaimed

FROM PAGE 3

One company leading the effort to block states from requiring retrospective application of DMF matches is Chicago-based Kemper Corporation, the parent company of multiple insurance agencies. According to the company's website, it has \$8 billion in assets. Kemper has been sued by California for violation of the state's unclaimed property laws and had a Kentucky court rule against its challenge to the state's requirement for life insurance companies to routinely cross-reference their list of insured members against the DMF.

Historically, the insurance industry has only paid death benefits upon submission of a claim. But if the insured's family is unaware of the policy, a claim cannot be filed. Older policies are at highest risk for having benefits go unclaimed due to poor record keeping or someone dying without a will or a probated estate. Before the digitized age, many low- and mid-income earners purchased insurance policies on their doorstep with only a paper certificate as proof.

Most of the forgotten policies are small in value but collectively represent hundreds of millions of dollars. If

insurers were exempted from either identifying on their own deceased policyholders and attempting to notify the beneficiaries, or allowing states to examine their records for the same purpose, companies would essentially be allowed to turn liabilities into assets. Hundreds of millions in insurance benefits – which were paid for by the deceased policyholder – would remain with the company with little chance of a beneficiary stepping forward to claim them.

Often discussed is the collective impact of the payout value of unclaimed policies on a company's bottom line. However, as the Kentucky Circuit Court stated in its judgment, the requirement to identify deceased policyholders “merely confirms the right of beneficiaries to the money the insured's premiums have already paid for... No insurer will be required to pay more than it is already contractually obligated to pay for, and no beneficiary will receive more than the insured premiums obtain.”

Even if all unclaimed life insurance policies were paid at once - which is improbable - insurance companies would still yield a significant financial gain. The policy value is not the largest financial driver of companies' resistance to pay death benefits; the real money is in the time value of money, or the interest earned by the companies while they hold those assets.

Absent a claim, many insurance companies consider a life insurance policy matured only when the insured reaches the limiting age, an actuarial term equal to the policyholder reaching between 99-120 years of age.

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It's about more than money

The debate over unclaimed life insurance is not just about dollars. It's about real life people with real life needs.

In 2008, Sherry Sanders became a widow with seven children, 26 grandchildren and not a lot of money.

She was unaware that her husband, Donald, had regularly paid the premiums for a life insurance policy worth more than \$22,000. And she would likely have never known if not for the Oklahoma Unclaimed Property Program and its examination of life insurance companies.

In fact, when examiners found the Sanders' policy, it had been placed on inactive status; essentially cancelled because the premium payments stopped after Donald passed away.

Sherry didn't know about the policy, and the insurance company never checked

public records to see why the payments stopped.

Fortunately, earlier this year Sander's name was advertised in the paper and she was able to claim and receive her money.

Her first purchase was a car; which meant she no longer had to depend on public transportation.

Sanders' story is not unique. There are thousands in Oklahoma like her who, thanks to examination efforts, are able to get what rightfully belongs to them following the death of a loved one.

In the past year, the Oklahoma Unclaimed Property division has reunited several hundred Oklahomans from Enid to Talihina and from Miami to Hulbert with some \$650,000 in life insurance proceeds. The average payment was more than \$2,250, but some have been as high as \$74,000.



Unclaimed

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In the case of an insured person who dies at 50 with a \$5,000 policy, and no claim is filed, at the limiting age of 100, the insurance company would pay the beneficiary (or their heirs) the policy value of \$5,000. However, the insurance company would invest that money until then, and with an assumed rate of return of eight percent, it would grow to \$270,000. The insurance company would keep the remaining \$265,000.

Using those same parameters for Sherry Sanders, a recent recipient of a \$22,000 unclaimed life insurance policy, investment of the policy would yield \$1.2 million after 50 years. Again, Ms. Sanders or her heirs would have been paid \$22,000 with the insurance

company earning \$1.178 million in interest from the policy.

Some insurers are claiming undue hardships associated with requirements to identify deceased policyholders. Others argue that if they do not use the DMF for the purpose of terminating payments such as annuities then they should not be required to use it to identify due death benefits.

But states contend that technology advances make it relatively easy to cross-check policies against death records and believe ignoring those tools is an unacceptable business practice. Besides, every business has compliance costs.

Consumers purchase life insurance expecting that it will benefit their loved

ones in a time of need. They likely never imagined a scenario in which insurance companies, and not their beneficiaries, would benefit from the funds after their death.

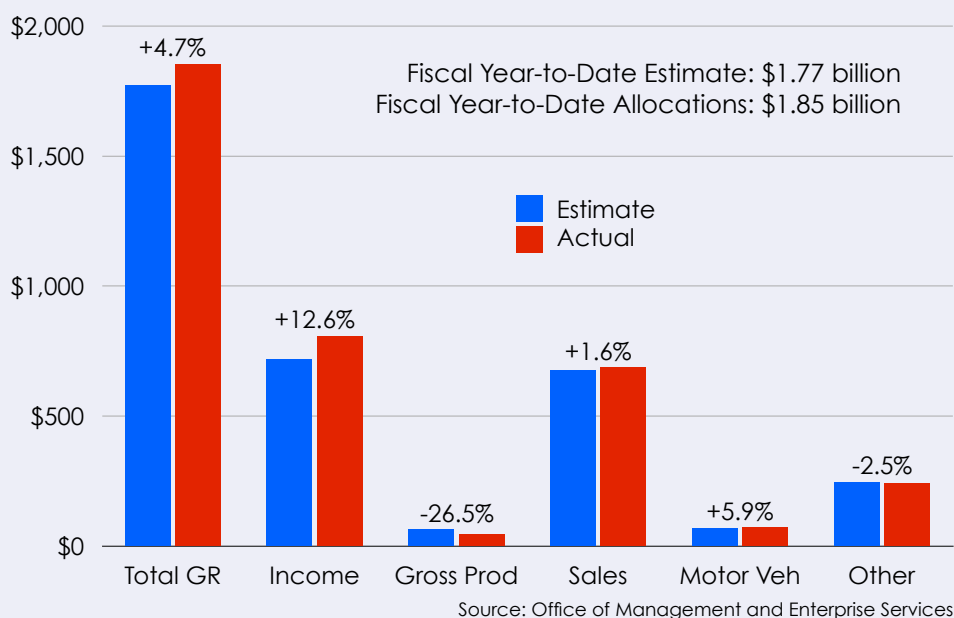
There is a tremendous amount of money at stake in the battle between some insurers and state unclaimed property programs; the outcome will determine whether those funds benefit consumers or companies.

Check for unclaimed property

Visit yourmoney.ok.gov to search and start a claim, or call 405-521-4273.

General Revenue Fund exceeds estimate through October

FY-15 General Revenue Fund Estimate-to-Actual July-Oct



Through the first four months of FY-15, allocations to the General Revenue Fund (GRF) exceed the estimate by \$82.4 million or 4.7 percent, according to the Office of Management and Enterprise Services.

Net income tax, a combination of personal and corporate income taxes, are above the estimate by \$90.3 million or 12.6 percent.

Sales taxes top the estimate by \$11 million or 1.6 percent. Motor vehicle allocations are ahead of the estimate by \$4 million or 5.9 percent.

Gross production taxes on oil and natural gas are below the estimate by \$16.8 million or 26.5 percent. Other sources are off the estimate by \$6.1 million or 2.5 percent.



Gross Receipts & General Revenue compared

The Treasurer's November 5 Gross Receipts to the Treasury report and the Office of Management and Enterprise Services' November 11 General Revenue Fund (GRF) report contain several differences.

October gross receipts totaled \$1.01 billion, while the GRF received \$471.6 million or 46.5% of the total.

The GRF received between 33.1% and 57.1% of monthly gross receipts during the past 12 months.

From October gross receipts, the GRF received:

- Personal income tax: 64.7%
- Corporate income tax: 49.7%
- Sales tax: 45.2%
- Gross production-Gas: 50.7%
- Gross production-Oil: None
- Motor vehicle tax: 27.1%
- Other sources: 36.3%

October GRF allocations exceeded the estimate by \$3.4 million or 0.7%. Year-to-date revenue topped the estimate by \$82.4 million or 4.7%.

For October, insurance premium taxes totaled \$197,519.

Tribal gaming fees generated \$10.19 million during the month.

October Gross Receipts to the Treasury continue climb

October was yet another good month for Oklahoma's economy, as measured by the monthly Gross Receipts to the Treasury report issued by State Treasurer Ken Miller. The report shows monthly receipts topped those of the same month of the prior year, and 12-month receipts set another record high.

Miller said monthly collections are up by almost 4 percent, while 12-month numbers show growth of just less than 5 percent.

"Oklahoma's economy continues its steady expansion," Miller said at a State

Capitol news conference. "While we will monitor the effects of softer crude oil prices, clearly, Oklahomans are

continuing to earn and spend more as reflected in this month's numbers."

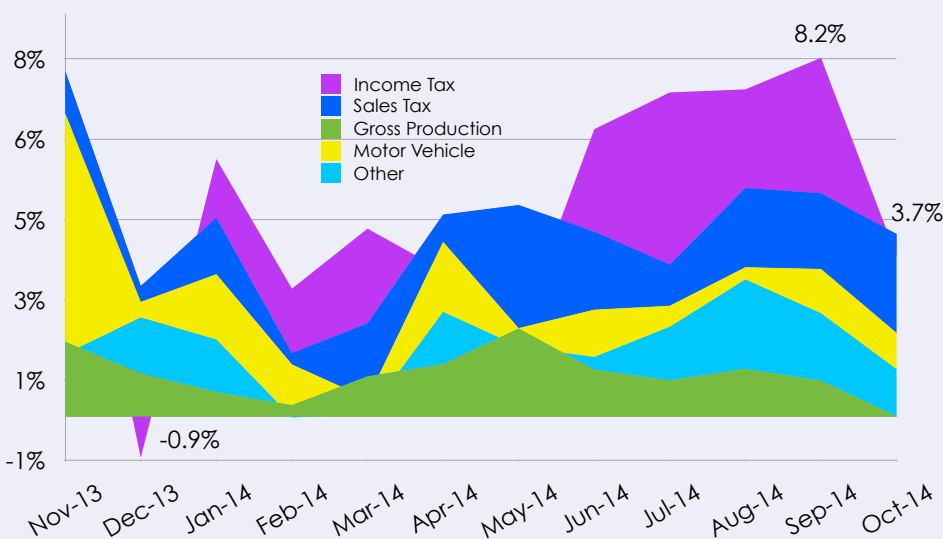
Collections in October from oil and natural gas production exceeded the prior year by only one-tenth of one percentage point,

reflecting recent lower prices. That compares to an increase of almost 15 percent in gross production collections during the past 12 months.

“While we will monitor the effects of softer crude oil prices, clearly, Oklahomans are continuing to earn and spend more.”

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Monthly Gross Receipts vs. Prior Year
November 2013 – October 2014



Percentage change from prior year

Source: Office of the State Treasurer



State unemployment shrinks to 4.5 percent in October

Oklahoma's preliminary, seasonally-adjusted unemployment rate was listed at 4.5 percent in October by the Oklahoma Employment Security Commission, down by two-tenths of one percentage point from September and 1.1 percentage point from the prior year.

Compared to October 2013, the number of those listed as jobless dropped by 20,310 people, while statewide employment decreased by 11,480. The labor force shrank by 31,800 people over the 12-month period.

The national unemployment rate was set at 5.8 percent in October.

State Unemployment Report

OKLAHOMA	Unemp. rate*	Labor force*	Employment*	Unemployment*
Oct '14	4.5%	1,790,150	1,708,980	81,170
Sep '14	4.7%	1,781,500	1,697,890	83,610
Aug '14	4.7%	1,777,590	1,694,330	83,260
Jul '14	4.6%	1,783,350	1,701,070	82,280
Jun '14	4.5%	1,793,690	1,712,330	81,360
May '14	4.6%	1,807,070	1,724,170	82,910
Oct '13	5.6%	1,821,950	1,720,460	101,480

* Data adjusted for seasonal factors

Source: OESC

Revenue

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Gross production collections in October are based on oil field activity in August.

Since then, prices have continued to decline. The U.S. Energy Information Administration reports the spot price of West Texas Intermediate crude oil

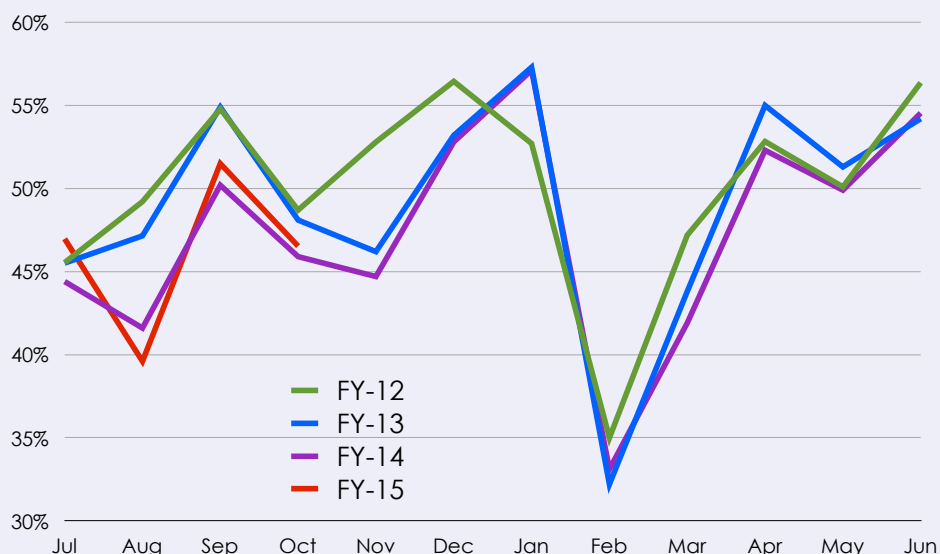
closed November 3 at \$78.11 per barrel. In August, the average price per barrel was \$96.54.

The only major revenue stream falling below collections from last October is the routinely volatile corporate income tax, which is down by more than 44 percent. Over the past year, corporate collections have been below the same month of the prior year five times. Twelve-month corporate collections are below the prior period by almost \$74 million.

About Gross Receipts to the Treasury

The Treasurer's Office issues the monthly Gross Receipts to the Treasury report to provide a timely and broad view of the state's economy. It is released in conjunction with the General Revenue Fund report from the Office of Management and Enterprise Services, which provides information to state agencies for budgetary purposes.

Percentage of Gross Receipts Allocated to General Revenue Fund



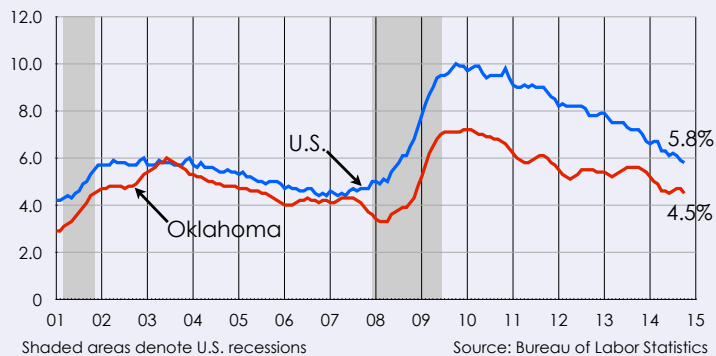
Source: Office of the State Treasurer



Economic Indicators

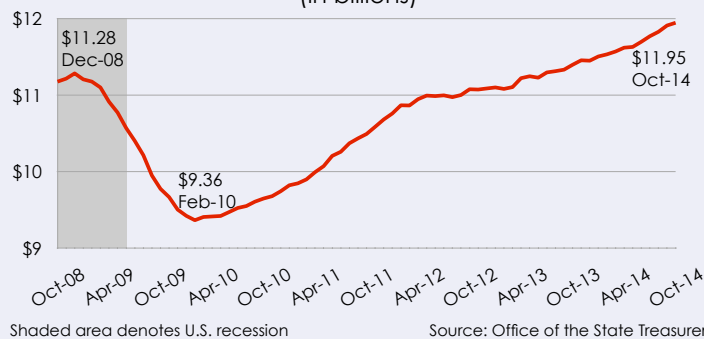
Unemployment Rate

January 2001 – October 2014

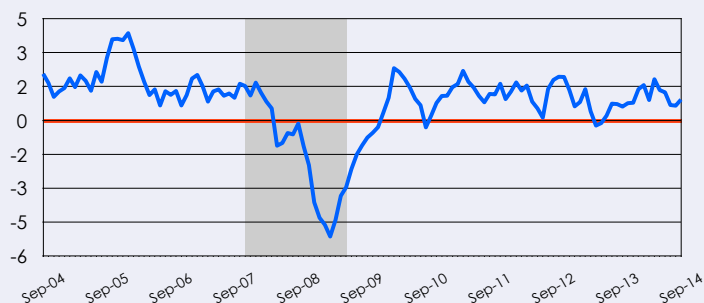


Oklahoma 12-Month Gross Receipts

October 2008 - October 2014
(in billions)



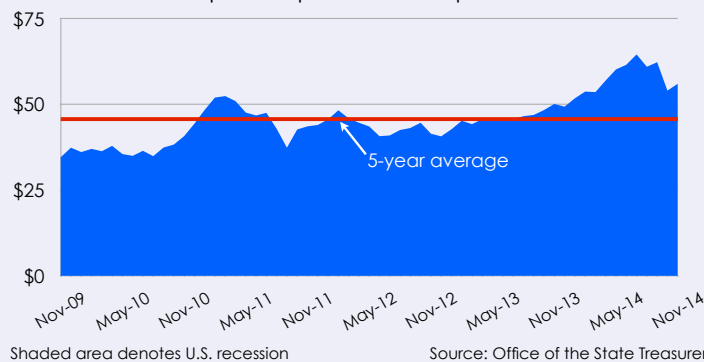
Leading Index for Oklahoma



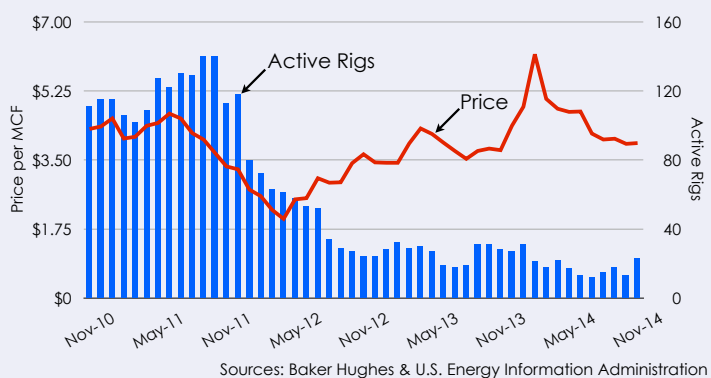
This graph predicts six-month growth by tracking leading indicators of the state economy including initial unemployment claims, interest rate spreads, manufacturing and earnings.

Oklahoma Stock Index

Top 25 capitalized companies



Oklahoma Natural Gas Prices & Active Rigs



Oklahoma Oil Prices & Active Rigs

